

GOVERNMENT OF ANDHRA PRADESH
A B S T R A C T

Andhra Pradesh Municipal Development Project (APMDP) - Adoption of N.B.F.C norms by APUIF in implementation of Andhra Pradesh Municipal Development Project (APMDP) - approved – orders issued

MUNICIPAL ADMINISTRATION & URBAN DEVELOPMENT (UBS) DEPARTMENT

G.O.Rt.No. 120

Dated: 02-02-2010
Read the following

From the CDMA Letter Roc.No.703/FC/MSU/APMDP/2007 Dated: 18-12-2009
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ORDER:

The Commissioner and Director of Municipal Administration, Hyderabad vide reference read above, has submitted that as per Project Appraisal Document of APMDP dated 08.10.2009, under rule (5) loan conditions and covenants, sub-rule (43c), "GOAP will implement the APMDP according to the Operations Manual satisfactory to the Bank, which specifies, among others, requirements for adequate financial management such as the maintenance of satisfactory accounts and engagement of qualified accountants in participating entities, adoption of NBFC norms by APUIF, auditing and reporting arrangements, criteria for ULBs and subprojects to qualify for financing and furnished the draft NBFC norms and requested the Government to approve the NBFC norms to be adopted by APUIF for implementation of APMD Project.

2. The Government after careful examination, here by approve the N.B.F.C. norms to be adopted by APUIF annexed to this order with certain best practices (i.e. 1. Guidelines on Corporate Governance, 2. Accounting Policies & 3. Disclosures in Balance Sheet) for implementation of APMD Project.

3. The Commissioner and Director of Municipal Administration, Hyderabad shall take necessary action accordingly.

4. This orders issues with the concurrence of Finance Department vide their U.O.No1940/23/A1/Expr (M&F)/10 dated: 25-01-2010.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

PUSHPA SUBRAHMANYAM
PRINCIPAL SECRETARY TO GOVERNMENT &
COMMISSIONER, UPA

To

The Commissioner and Director of Municipal Administration, Hyderabad.

Copy to:

The Managing Director, APUFIDC Limited, Hyderabad,

The Project Director, MSU - APMDP O/o CDMA, Hyderabad.

The Finance (Expr (M&F) Department.

The Finance (PMU) Department.

The P.S. to Hon'ble M(MA).

The P.S. to Principal Secretary (P) to Government.

SF/SC

//FORWARDED BY ORDER//

ASSISTANT DIRECTOR

ANNEXURE TO G.O.Rt.No. 120 M.A. DATED:02 .02. 2010

**ANDHRA PRADESH URBAN INFRASTRUCTURE FUND (APUIF)
BEST ACCOUNTING & DISCLOSURE PRACTICES AND GOOD GOVERNANCE**

BACKGROUND:

Andhra Pradesh Urban Infrastructure Fund (APUIF) was established as a Trust under the Indian Trust Act, 1982 pursuant to orders by the Government of Andhra Pradesh vide G.O.Ms.No.72, MA, dated 18.02.2005 and registered as a trust under a trust deed executed on 23rd February 2005.

The Trust was established by the Governor of AP represented by the principal secretary and is having seed capital of Rs.25 crores received from Government of Andhra Pradesh in terms of GO Ms No. 72MA dated 18.02.2005.

In practice the Trust acts as a state nodal facilitating agency to fund urban bodies to enable them to meet social objectives and obligations of the AP State Government.

The principle objectives of the Trust as stated in the trust deed are to;

- a) Fund Urban Infrastructure projects, which improve the living standards of urban population, including the urban poor.
- b) Assist urban local bodies and other agencies providing urban infrastructure in accessing the capital market, individually or jointly through pooled finance arrangements.
- c) Operate a complementary window, to assist urban local bodies and other agencies by way of grants, in addressing the problems of the urban poor and the issues of environmental conservation.
- d) Facilitate private sector participation in infrastructure through joint ventures and through formats such as public-private-community partnerships.
- e) Capacity building, including financial management of urban local bodies to enable them to access debt finance from the market.

All the funds are received through Government of Andhra Pradesh and, accordingly APUIF receives and disburses loans and grants in accordance with laid down eligibility criteria and various schemes. Hitherto, in terms of an agreement the Andhra Pradesh urban infrastructure development corporation Ltd. was the acting fund manager. As per revised arrangement the funds are routed thru CDMA as operating agency in the case of APMDP in which case the trust manages the funds. The funds available under various schemes are continued to be held as such for furtherance of the objectives under specific schemes.

FUNDING OF VARIOUS SCHEMES:

Andhra Pradesh Urban Infrastructure Fund (APUIF) is presently carrying out activities in respect of chanelising funds for APURMSP and JNNURM schemes.

- a) For APURMSP / APMDP funds are received from GOAP, in turn, same is aided by World Bank.
- b) For JNNURM funds are from GOI and GOAP.

NBFC NORMS:

Definition:

A NBFC should be a company registered under the companies Act. 1956.

In terms of Sec 45-IA of the RBI Act, 1934, it is mandatory that every NBFC should be registered with RBI to commence or carry on any business of Non-banking financial institution as defined in clause (a) of section 45 I of RBI Act, 1934.

NBFC's registered with RBI have been reclassified as

- a) Asset finance company (AFC)
- b) Investment company (IC)
- c) Loan company (LC)

As per the definitions discussed above, a NBFC described above should be a commercial organization intending to carry out business to earn profits and share such profit. When such kind of intention is absent from original consulting documents, the regulations does not apply to such entities.

Given the above background and definition of NBFC, the norms issued by RBI will not prima facie be applicable to APUIF Trust.

In addition to the above, the Trust does not have any exposure by way funding to the private sector, there is no cash outflow by way of distribution of excess of income over expenditure and no income streams specifically defined in the objectives of the trust. Further, no security is offered by the local bodies against the amounts disbursed by the APUIF TRUST under various schemes.

The World Bank loan is given to the government which gives it as a grant to APUIF trust. The trust is expected to finance the projects of local bodies and recover them with interest and create a Revolving Fund to finance future projects of local bodies etc. If the monies advanced to local bodies are not recovered the revolving fund cannot be built up and the very purpose of one of the main objects of the trust will be defeated.

Though the loan may be secured by the assets created out of the loan, such assets are not marketable securities.

In view of the forgoing, it is not possible to apply the NBFC norms to the APUIF Trust.

However, to ensure that the financial statements comply with the relevant regulations and statutory requirements it must be ensured that there is adequate disclosures of all material matters relevant to the proper presentation of the financial statements.

This is possible by adopting certain best practices with suitable modifications as briefly dealt in the following paragraphs;

I- GUIDELINES ON CORPORATE GOVERNANCE

As it is evident, the need for good corporate governance has been gaining increased emphasis over the years. Globally, companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Corporate Governance is the key to protecting the interests of the stake-holders in the corporate sector. Its universal applicability has no exception to the Non Corporate and other entities.

In order to enable Non-Corporate and other Entities to adopt best practices and greater transparency in their operations the Management, Trustees and the like should constitute committee or a working group to oversee the implementation of the guidelines to be followed. Considering that the operations manual of APMDP provides for having the following committee viz.

- Project Appraisal Committee.
- Steering Committee.
- Empowered Committee.

It can be considered to constitute an audit committee with the following terms of reference among other things keeping in view the nature of activities of APUIF:

Audit committee:

- 1) The committee shall consist of at least three members.
- 2) The role of the audit committee shall include the following:
 - a) Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
 - b) Recommending to the Trust board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
 - c) Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
 - d) Reviewing, with the management, the annual financial statements before submission to the board of Trustees for approval, with particular reference to:
 - Changes, if any, in accounting policies and practices and reasons for the same
 - Major accounting entries involving estimates based on the exercise of judgment by management
 - Significant adjustments made in the financial statements arising out of audit findings
 - Compliance with legal requirements relating to financial statements Qualifications in the draft audit report.
 - e) Reviewing, with the management, the statement of uses / application of funds received during the period and making appropriate recommendations to the Board of trustees to take up steps in this matter.

f) Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

II – ACCOUNTING POLICIES

A) Basis for preparation of financial statements

The financial statements are prepared under the Indian GAAP on going concern basis at historical cost under the accrual method in accordance with applicable Accounting Standards unless stated otherwise.

B) Income recognition

Income/Interest from performing assets is accounted for on accrual basis.

Income including interest/discount or any other charges on Nonperforming asset (NPA) is recognised only when it is actually realised. Any such income recognised before the asset becomes Nonperforming and remaining unrealised is reversed.

Any income accruing or arising by virtue of funding any approved project under a scheme by the Govt. of A.P is considered as income of such scheme.

C) Fixed assets

Fixed assets are stated at cost less depreciation. Cost comprises of purchase price inclusive of all taxes, freight, incidental charges and other attributable expenses relating to acquisition and installation.

D) Depreciation

In respect of depreciable assets, depreciation on original cost is provided on written down value method at the rates prescribed in the Income Tax Act, 1961 and, is provided for the number of days the asset is put to use.

E) Norms for Asset classification – performing and Non-performing loans

Norms for deciding performing and non-performing loans;

- There shall be a Moratorium on payment of instalment of principal for three years.
- Interest shall be paid half-yearly. If interest is not paid for two half-year, then the loan shall be classified as Non- Performing after expiry of six months from the date of default in payment of second half year interest.
- Instalments of principal shall commence after the completion of the period of Moratorium. The instalments shall be payable half-yearly; if two instalments of principal are in arrears, the loan shall be treated as non-performing asset after expiry of six months from the date of default in payment of second half year instalment.

Provisioning;

The provision shall be on the Loan portion at the rate of 10% per annum till full provision is made

Note: After taking into account the time lag between an account becoming non performing, its recognition as such, the realization of security and the erosion over time in the value of the security charged, make provision for the non performing assets.

Provision shall be made for overdue interest and instalment of principal in accordance with these norms for provisioning and, it shall be carried as a provision and adjusted against a matching grant to be provided by the Government of A.P.

NOTE: As the Trust should have a net worth to function as an entity, it is necessary to keep the core capital intact. Hence the Government of A.P. shall release grants to the extent of provision made each year in the accounts.

F) General

Accounting policies not specifically referred to are consistent with the generally accepted accounting practices.

III- DISCLOSURES IN BALANCE SHEET:

Provisions for NPA's

The Trust shall separately disclose in its balance sheet the provisions made as per paragraph II-E above without netting them from the income or against the value of assets.

The said provisions for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

Transitory Provisions:

In respect of advances made to local bodies prior to implementation of these norms, interest overdue and instalments of principal overdue as on the date of implementation of these norms are to be rescheduled for the rest of the loan tenure and the provisioning norms as specified herein above shall apply thereafter.